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7 BEFORE THE OFFICE OF THE INSURANCE COMMISSIONER
8 OF THE STATE OF WASHINGTON

9 In the Matter of the Application regarding the
10 Conversion and Acquisition of Control of
11 Premera Blue Cross and its Affiliates.

No. G 02-45

PRE-FILED TESTIMONY OF PHILIP
JORDAN

- 12
- 13 1. My name is Philip I. Jordan and I work for the Washington Protection &
14 Advocacy System (WPAS) as a System Advocate. WPAS is a member of the
15 Premera Watch Coalition.
- 16 2. WPAS is the private, non-profit agency designated by the state, pursuant to
17 federal law, to advocate for and protect the rights of individuals with
18 disabilities. My duties include analyzing how proposed public policies will
19 impact people with disabilities and informing policy makers about issues faced
20 by our clients. Health care issues are extremely important to people with
21 disabilities and I have had the opportunity to be involved in several health
22 care-related issues while being employed at WPAS.
23

1 3. WPAS opposes the proposed conversion of Premera to a for-profit entity.
2 People with disabilities often have difficulties accessing health care. People
3 with disabilities are particularly vulnerable to increases in health care costs.
4 They are often perceived to be a high-risk population to insure, and have
5 difficulties in finding appropriate coverage for their needs. The conversions of
6 other Blue Cross/Blue Shield entities from non-profit to for profit status have
7 demonstrated that access difficulties are often exacerbated by such a
8 conversion. Some of the reasons why this happens are:

- 9 • The converted for-profit insurers have lobbied against new proposed
10 consumer protections or sought repeal of existing ones.
- 11 • Converted for-profit insurers and other for-profit entities often seek to
12 reduce their participation in unprofitable markets, such as those
13 markets that serve a disproportionate number of persons with
14 disabilities.
- 15 • For-profit insurers have a material interest in aggressively increasing
16 their profitability at the expense of the insured. Strategies used to
17 accomplish this goal can include increased incidence of claim denials,
18 premium increases not justified by cost of providing services and
19 aggressive bargaining with providers that limits services available to
20 policy holders.
- 21 • For-profit entities often allow executive compensation to exceed by
22 vast amounts the levels of many non-profit executives. This creates
23

1 another incentive for the for-profit entity to siphon dollars away from
2 the provision of health care services and into the pockets of the
3 executives.

- 4 • Many low income individuals, people with disabilities and seniors are
5 particularly vulnerable to improper claims denials (and other tactics
6 designed to delay or deny care), because they are less likely to
7 understand and use complaint and appeal processes.

8 4. WPAS became concerned with the proposed conversion shortly after the
9 original Premera filing in 2002 when one of our attorneys brought the issue to
10 the attention of the WPAS management. It was determined that this was a
11 critical issue because of the potential harm to people with disabilities if the
12 conversion was to be approved.

13 5. People with disabilities have traditionally been the most unemployed
14 population in the country. That is beginning to change because the federal and
15 state governments have instituted broad employment programs, most notably
16 the Ticket to Work and Work Incentives Improvement Act of 1999. Because
17 of this changing environment, some people with disabilities are becoming
18 employed and relying on private health care insurance rather than Medicaid or
19 Medicare.

20 6. People with disabilities often have health care needs that go beyond what is
21 covered by many private health plans. As more and more people with
22 disabilities become employed, their need for greater benefits coverage in the
23

1 private health insurance market has grown. The needs of persons with
2 disabilities who work requires changes to public policy to protect persons with
3 disabilities from efforts by health insurers to avoid serving them because of a
4 belief that persons with disabilities are greater users of health care coverage.

- 5 7. Premera has already demonstrated that, should they be allowed to convert, they
6 will not be responsive to the needs of people with disabilities, particularly
7 those with low-incomes. Premera recently announced that it will no longer
8 participate in the state's Medicaid managed care program, called "Healthy
9 Options" which serves many low-income people with disabilities. See Kyung
10 Song, "Premera wants to transfer health-care coverage for the poor," Seattle
11 Times, March 2, 2004 at

12 [http://archives.seattletimes.nwsource.com/cgi-](http://archives.seattletimes.nwsource.com/cgi-bin/texis.cgi/web/vortex/display?slug=premera02m0&date=20040302)
13 [bin/texis.cgi/web/vortex/display?slug=premera02m0&date=20040302](http://archives.seattletimes.nwsource.com/cgi-bin/texis.cgi/web/vortex/display?slug=premera02m0&date=20040302)

14 Premera's withdrawal from the Medicaid market demonstrates that they no
15 longer consider serving poor, disabled people to be part of their mission.

16 Instead, Premera is positioning itself to increase the value of the company at an
17 IPO by ceasing to serve the low-income families and persons with disabilities
18 that currently rely upon their services for health care.

- 19 8. If Premera is allowed to convert, adequate health care coverage for employed
20 people with disabilities may also be diminished, if the company reduces the
21 range of covered benefits in pursuit of higher profits. Persons with disabilities
22 cannot remain working if they don't have health coverage that is adequate to
23 meet their needs. The State of Washington has a material interest in promoting

1 the employment of people with disabilities. Consequently, it is not in the best
2 interest of the State or people with disabilities to allow the conversion.

3 9. WPAS urges the Commissioner to reject Premera's proposal. The citizens of
4 Washington are better served by non-profit health insurance providers.
5

6 I declare under penalty of perjury of the laws of the State of Washington that the
7 foregoing is true and correct.
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9 Dated this __ day of March 2004, in Seattle, Washington.
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13 PHILIP I. JORDAN
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6 I declare under penalty of perjury of the laws of the State of Washington that the
7 foregoing is true and correct.
8

9 Dated this 29 day of March 2004, in Seattle, Washington.
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13 PHILIP I JORDAN
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Tuesday, March 02, 2004, 12:00 a.m. Pacific

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Premera wants to transfer health-care coverage for poor

By Kyung Song

Seattle Times staff reporter

Premera Blue Cross wants to stop providing Medicaid and Basic Health Plan coverage in Washington state and transfer its contracts to a California-based company that specializes in government-sponsored health plans for low-income people.

The deal with Molina Healthcare would switch Premera's 43,000 Medicaid members and 23,000 Basic Health members to Molina's managed-care providers later this year. About 80 percent of doctors and hospitals who accept Premera's Medicaid and Basic Health Plan members also belong to Molina's provider network.

Molina hopes to sign up many of the remaining nonparticipating physicians and clinics, but some patients would have to find new doctors. The company already is Washington's largest Medicaid managed-care insurer and the second-largest provider of the state's Basic Health Plan.

The transfer must be approved by the state.

Medicaid is a state-federal program that provides health-care coverage for the poor and disabled. About two-thirds of Washington's 900,000 Medicaid clients are children. About half of the members belong to Medicaid's manage-care plans, called Healthy Options, which are administered by private insurance companies. The rest belong to the traditional fee-for-service plan provided directly by the state.

The Basic Health Plan, which has 138,000 members, is a state-subsidized plan for the working poor, mostly adults with incomes below 200 percent of the federal poverty level.

Mountlake Terrace-based Premera, Washington's largest health insurer, would be the latest major insurance carrier to scale back or pull out of Medicaid and Basic Health Plan coverage.

Group Health Cooperative of Seattle this year dropped its Medicaid Healthy Options plan in Snohomish County and cut its enrollment in King and Pierce counties, although the company said it remains committed to serving low-income patients.

Regence BlueShield, Premera's largest rival, no longer provides

Molina Healthcare

Molina Healthcare is a private, for-profit company that specializes in managed health-care plans for low-income people. It is Washington's largest Medicaid managed-care insurer and the second-largest provider of the state's Basic Health Plan.

- Headquarters: Long Beach, Calif.

- Founded: 1980

- Membership: 564,000 in California, Washington, Michigan and Utah (190,000 in Washington).

Healthy Options in King County.

- 2003 financials: Net income of \$42.5 million on revenue of \$794 million

Medicaid and Basic Health's reimbursement rates tend to be lower than those for private insurance plans, so the state has struggled to sign up enough doctors and clinics to ensure adequate geographic coverage. For instance, Healthy Options is unavailable this year in two rural Washington counties, Wahkiakum and Asotin, forcing patients to find doctors who accept fee-for-service Medicaid clients.

The impact on Basic Health members might be even more pronounced because Premera operates in nine counties, including Yakima, Whatcom and Stevens, where Molina now does not.

"Our biggest concern is that we maintain continuity of care," said Dave Wasser, a spokesman for the state Health Care Authority, which oversees the Basic Health Plan. Premera's proposed deal "makes it that much tougher for us to make sure that we have a presence in every county."

MaryAnne Lindeblad, a director of program support for Medicaid, said Premera's Medicaid clients could expect minimal changes. Benefits wouldn't change, and anyone who wouldn't want to switch to Molina likely would have one or two other carriers to choose from, she said.

Still, Lindeblad lamented Premera's decision to opt out of Medicaid and Basic Health.

"One less plan certainly means less competition" and one fewer choice for patients, she said. About a half-dozen companies now participate in the state-sponsored health plans.

Healthy Options and Basic Health account for 3.6 percent and 1.9 percent, respectively, of Premera's 1.2 million enrollment in Washington. Chris Jarvis, a Premera spokesman, said both products are profitable. But Premera wants to drop the plans because of the small number of members and the extra costs required to administer the insurance, Jarvis said.

Molina does not sell commercial health insurance.

Dr. Mario Molina, the company's chief executive, said many low-income patients have special needs, with language, transportation and social issues. He said Molina's brochures are written at a third- or fourth-grade level and the company employs multilingual staffers who can communicate with clients in Russian, Vietnamese, Spanish and other languages.

"Large companies with a small focus (on government health plans) don't do as well" with such a population, said Molina, whose father, C. David Molina, an emergency-room doctor, founded the company in 1980.

The proposed transaction must be approved by the state's Medical Assistance Administration and the Washington Health Care Authority.

The switch likely would not occur before June 1.

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